ANNUAL REPORT
2003

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Honourable Loyola Sullivan
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, NL
Canada, A1B 4J6

Dear Minister Sullivan:

It is my pleasure to submit the 30th annual report of the Newfoundland and Labrador Liquor Corporation. The report covers the fiscal year ending March 31st, 2003 and summarizes the Corporation's activities during this reporting period.

Sincerely yours,

J Smith

Jamie M. Smith
Chair

Message from the President and C.E.O.

Over the years the Newfoundland and Labrador Liquor Corporation has experienced great changes as it has moved from a supply-based organization to a customer-oriented retailer. One of the key changes has been the emergence of a more diverse and discerning customer base in our province than ever before. We are committed to providing our customers with service, selection and satisfaction and, as a responsive corporation, we made customer satisfaction a priority in 2002-2003.

Delivering customer satisfaction requires a multi-faceted approach. In 2002-2003, NLLC continued to refine our knowledge of customer needs, tailor our inventory to meet demand, deliver services in new locations in the province and improve the quality of our facilities and the services they provide. Upgrades, renovations, innovative display systems, in-store promotions and the launch of our consumer magazine, *Enjoy*, have all been part of our drive to optimize customer satisfaction.

commitment

Fiscally, NLLC strived to balance increased costs related to infrastructure and service improvements with its commitment to profitability, realizing a net profit of over $92 million and providing the Government of Newfoundland and Labrador with a dividend of $93 million, an increase of $2 million from the previous year. The Corporation, through its strategic plan, continues its commitment to improve service through both comprehensive renovations of existing locations and the opening of new retail outlets. Through operating customer-friendly stores in convenient locations throughout the province and delivering increased customer service, NLLC works towards its goal of generating more revenue for the province of Newfoundland and Labrador.

service

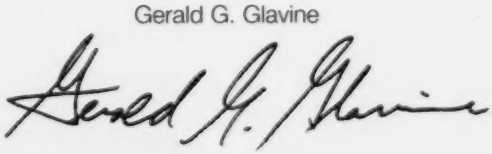
Throughout the year, we also continued and renewed our commitment to social responsibility. We worked to raise awareness of responsible use of beverage alcohol through public information and public awareness campaigns and collaborated with the Canadian Association of Liquor Jurisdictions, the Citizens' Crime Prevention Association and police forces on larger initiatives. We supported community organizations such as MADD, the Royal Canadian Legion and the Salvation Army by providing them with space and support for their campaigns. With the enthusiastic support of our staff, we undertook successful fundraising initiatives including campaigns in support of the Janeway Child Health Care Centre and Ducks Unlimited Canada.

responsibility

Customer satisfaction, accountability and social responsibility are all keystones on which our Corporation is built. As we move forward to achieve the best results possible in these areas, NLLC is guided by our comprehensive strategic plan and by measurable goals as set down in detailed annual business plans. This report, then, is structured to report on our defined goals and on the priorities identified and actions taken to meet them in 2002-2003.

We owe the year's successes to our Board and employees. Our Board shapes our vision. Our employees carry our goals forward and translate our vision into daily effort. At a time when change is necessary to keep pace with altered demographics, consumer expectations and market trends, they embrace innovation and push forward our goal of excellence in customer service.

Gerald G. Glavine



President and C.E.O.

quality

partnerships

accountability

Vision

To provide excellent management of the beverage alcohol industry in Newfoundland and Labrador.

Mission

To provide excellent management of the importation, distribution and sale of quality beverage alcohol. The Corporation will maximize revenues within a framework of social responsibility and will focus on customers, build partnerships and provide a quality workplace for employees.

Lines of Business

The Newfoundland and Labrador Liquor Corporation (NLLC) is a provincial Crown corporation responsible for managing the importation, sale and distribution of beverage alcohol throughout Newfoundland and Labrador. In addition to being a retailer, NLLC is also a manufacturer of a number of brands of beverage alcohol products that are distributed throughout the province, Canada and beyond. NLLC receives commissions on the sale of beer in the province. NLLC is also the organization that oversees the formation of and distribution to agency stores. As the Corporation with the overall responsibility for alcohol distribution and control in the province, NLLC operates within a framework of public accountability and social responsibility.

Facilities, Locations and Employment

NLLC's head office and bottling plant are located in St. John's. As of the end of the 2003 fiscal year, the Corporation:

- operated 24 retail stores throughout the province;
- serviced 100 agency stores province-wide;
- distributed products to more than 1,500 licensees;
- produced more than 126,000 cases of spirits; and
- employed in excess of 300 staff.

L-R: Gerald G. Glavine, President and CEO; Irene Howlett, Director; Fred Harding, Director; Cecil Lake, Director; Margaret Ayad, Director; Michelle Batterson, Director; and Jamie M. Smith, Chair.

Revenues and Expenditures

Figure A — Sources of Revenue Fiscal Year 2002 - 2003

63%	Sales - Spirits, Wine, Beer
25%	Beer Commission
9.9%	Harmonized Sales Tax
1.4%	Licensee Tax
.7%	Miscellaneous

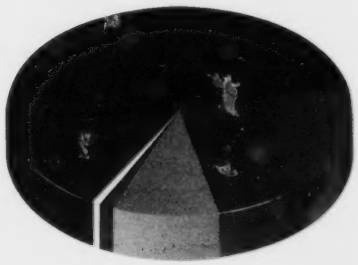
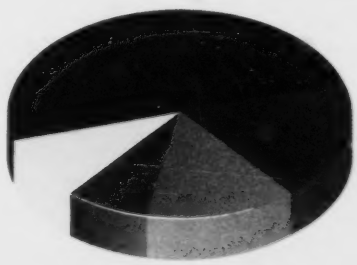


Figure B — Application of Revenue Fiscal Year 2002 - 2003

49.6%	Province of Newfoundland and Labrador
18.4%	Supplier
14.2%	Administrative Expenses
7.9%	Federal Taxes (Customs and Excise)
9.9%	Harmonized Sales Tax



NLLC develops a number of programs focused on the responsible use and consumption of beverage alcohol. In delivering these programs, the Corporation has partnered with other public bodies and non-profit organizations. The Corporation also takes part each year in a number of fundraising initiatives.

Promoting Responsibility and Public Safety

charity

Building on the success of previous Don't Drink and Drive campaigns, NLLC delivered a comprehensive public safety message campaign with a program called the Summer Road Show. This program entailed sponsoring a series of Don't Drink and Drive and Don't Drink and Boat radio messages that aired from the May 24 weekend through Labour Day. A road show vehicle also traveled the province visiting campgrounds and parks to reinforce these messages. This program was an outstanding success and became part of NLLC's public awareness plans for summer 2003.

safety

In the fall of 2002, NLLC joined in a national social responsibility campaign through the Canadian Association of Liquor Jurisdictions. As part of this initiative, we distributed 10,000 copies of *Host*, a guide to responsible entertaining, free of charge to customers throughout the province in November and December. The publication focused on event hosting, liability issues for hosts, facts about alcohol and alcohol-free alternatives. Based on its success, NLLC has planned to offer the program again.

community

In 2002-2003, NLLC renewed a partnership with the Citizens' Crime Prevention Association, the Royal Newfoundland Constabulary (RNC) and the Royal Canadian Mounted Police (RCMP) to deliver the Brown Bag promotional program throughout Newfoundland and Labrador. The program encourages students in grades four and five to draw their impressions of the consequences of drinking and driving on brown paper bags. Winning drawings are selected and the students receive plaques and prizes. The thousands of bags are then distributed for use in NLLC retail stores. This program both creates a highly visible message and involves young students in discussion of responsible alcohol use.

Graphics displayed are the winning entries in this year's Brown Bag Program.

Fundraising - Giving Back to the Community

In 2002-2003, NLLC continued its commitment to assist a number of non-profit organizations. Throughout our facilities, we raised funds for the Janeway Child Health Care Centre, Child Find, the Newfoundland and Labrador Lung Association and Ducks Unlimited Canada. The program in support of Ducks Unlimited was particularly successful as it raised $18,475 through silent auctions on limited edition prints displayed in our retail outlets. Also during this year, the Corporation pledged $100,000 to the Give to Feel Good Campaign, which raises funds for health care equipment and technologies in Newfoundland and Labrador. NLLC will meet this commitment in four annual installments; the first $25,000 contribution was made in 2002-2003.

Once again this year, NLLC welcomed a number of organizations into our facilities for seasonal promotional and fundraising campaigns. These included the Royal Canadian Legion's Remembrance Day poppy campaign, the Mothers Against Drunk Driving (MADD) Red Ribbon campaign and the Salvation Army kettle campaign.

NLLC works with a number of special interest and charitable groups in the province. During this fiscal year NLLC donated its corporate box at Mile One Stadium on a number of occasions to non-profit organizations for their use and enjoyment. In some instances these organizations used the box for fundraising efforts while other organizations provided the tickets to those they work to assist.

Lloyd Penney, NLLC's Vice President of Corporate Affairs, presents a cheque in the amount of $18,475 to Joe Bennett, Senior Development Officer of Ducks Unlimited Newfoundland and Paul Hickey, Director of Ducks Unlimited Newfoundland and member of the National Board for Ducks Unlimited.

Facilities Expansion and Improvement for Better Service

NLLC continually strives to provide quality services in locations convenient to our customers. In 2002-2003, this included the opening of new stores in Pearlgate Plaza, Mount Pearl and Stavanger Drive, St. John's, both high-density shopping areas. In both locations, for customer shopping ease, these stores are located adjacent to and accessible from a supermarket.

service

Renovations and upgrades to existing retail outlets were also carried out to provide better customer service. Renovations were completed on NLLC stores in the Corner Brook Plaza and in Gander's Fraser Mall. As a result, walk-in chill rooms are now available at these locations. A chill room was also incorporated into the upgrade of the Topsail Road store in St. John's. A new design for the Murray Premises store in St. John's was also developed with a specific focus on product diversity for wine shoppers. Renovations to this location will continue into the 2003-2004 fiscal year. These investments in more customer-friendly stores are an investment in our future as they will enable NLLC to deliver better service to our customers and reinforce our efforts to generate more revenues.

diversity

convenience

Corporate growth, technological advances, increased demand for office space and health and safety concerns necessitated the renovation of NLLC's Kenmount Road property, which is more than 35 years old. Within the administrative part of the building, asbestos was removed and new offices created. In order to address maintenance and safety concerns in relation to brickwork, pre-cast panels and sidewalks, work commenced in 2002-2003 on the exterior of the building. As well, the retail store at this location was renovated. The store's renovations included enlarging the retail space to accommodate increased customer traffic, the redesign of display units to offer better product selection and accessibility, and the addition of a chill room to provide customer convenience. Other renovations, such as new loading doors to the main warehouse and upgraded work areas, enhance efficiency and provide staff with better resources and an improved workplace.

Agency Stores - Strengthening Our Retail Distribution Network

At NLLC, we are committed to providing services driven by customer demand in all regions of the province. This year, meeting customer demand involved both the opening of new agency stores and renovations to existing stores. In 2002-2003, new agency stores opened in Cape St. George, Millertown, Norris Arm, Parker's Cove, Petty Harbour, Pouch Cove and Steady Brook. Renovations were carried out to provide better customer service in existing stores in Centerville, Doyles, Gander Bay South, Harbour Breton and St. Lawrence.

Improving Distribution - the Key to Meeting Consumer Demand

Effective and efficient warehousing and distribution are key elements in meeting customer demand. In 2002-2003, we reconfigured our main warehouse to improve storage, shipping and receiving. On the west coast, we relocated our Deer Lake distribution centre to a much larger 13,000 square foot space in February 2003. The larger facility enables NLLC to greatly improve distribution to the 22 agency stores serviced from this location. It also provides back-up storage for our west coast corporate retail outlets and anticipates additional space required to service future agency stores. The overall result is better selection for the consumer through reduced stock shortages and improved delivery time.

Improving Efficiency and Service through Technology

In 2002-2003, NLLC successfully implemented the largest technological change in our history. The introduction of a Point of Sale (POS) technology network effectively brought our reporting system into the twenty-first century. The move to an integrated electronic database has been a long-term project carried out in partnership with Electronic Data Systems (EDS) Canada, James D. Armstrong (JDA) software and Connections Canada Incorporated (CCI). In 2002-2003, POS was successfully piloted in three locations and subsequently implemented in all retail outlets. Following this, NLLC's Supply Chain Management project team began work on the next phase of the project, integrating warehousing and distribution. Once completed, NLLC's full retail solution will link all of our operations, creating efficiencies in warehousing, ordering and delivery management.

Innovations in Communications and Marketing

In 2002-2003, NLLC introduced 338 new products. As we expand product variety to meet the needs of an increasingly diverse and discerning customer base, we are also changing the ways in which we communicate with our customers. Over the past year, NLLC carried out a number of initiatives aimed at improving customer service through better communications. We piloted Christmas gift theme stores in Corner Brook and Marystown and a gift theme kiosk in Grand Falls-Windsor. Customer reaction was positive to special gift products and personalized packaging. During the year, we also developed a Retail Image Program to both increase sales and focus on specific and seasonally appropriate beverage categories. Promotions included Add a Twist to Summer, Embrace the Taste of Autumn and Celebrate the Spirit of the Season. We also made a strong promotional effort to interest customers in NLLC gift certificates, resulting in an 85% increase in sales of these items. We redesigned our website and launched *Enjoy*, a free lifestyle magazine that introduces our products, provides food and drink recipes and focuses on restaurants, books, music and culture in the province. In improving communications, NLLC has also focused on consistency. In 2002-2003 we developed and implemented a *Merchandising Standards Manual* to guide all of our retail stores in their promotional activities.

NLLC used the corporate box at Mile One Stadium this year for a number of marketing and merchandising activities with suppliers, licensees and those who have the potential to generate greater sales of product. The Corporation also availed of the opportunity the box presents to interact and network with other businesses that deal with NLLC and to promote NLLC blended and bottled spirits.

As we expand product variety to meet the needs of an increasingly diverse and discerning customer base, we are also changing the ways in which we communicate with our customers.

Table A ▮ **Spirit Sales by Product Type (Litres)** 2001 - 2003

	2001	2002	2003
Rum	1,583,118	1,475,836	1,574,848
Rye Whiskey	773,727	714,590	736,646
Scotch - other Whiskey	93,728	88,061	89,493
Gin	55,170	51,037	51,380
Vodka	324,789	308,205	325,691
Brandy	26,629	25,995	27,277
Cognac	2,553	2,323	2,387
Liquers	256,272	272,832	293,082
Miscellaneous	12,586	8,966	8,551
Total Spirits	3,128,572	2,947,845	3,109,355

Table B ▮ **Product Sales Volumes (Litres) Including National Sales** 2001 - 2003

	2001	2002	2003
Spirits	3,128,572	2,947,845	3,109,355
Wine	2,201,416	2,394,044	2,792,396
Beer	993,970	1,042,761	1,493,039
Specialty	96,139	136,889	159,253
Total	6,420,097	6,521,539	7,554,043

Table C ▮ **Beer Sales (Litres)** 2001 - 2003

	2001	2002	2003
Local Beer (bottles)	353,689	422,245	571,633
Local Beer (cans)	80,810	78,873	95,918
Imported Beer	559,471	541,643	825,488
Total Beer	993,970	1,042,761	1,493,039

Building on Wine Fest's Success

NLLC's annual Wine Fest has become a hugely popular consumer exhibition. Based on the success of the St. John's event, NLLC held a Wine Fest at a second location, Corner Brook, for the first time in 2002-2003. Portions of the proceeds of both events were donated to non-profit organizations. The Newfoundland Symphony Orchestra benefitted from the St. John's Wine Fest, and proceeds from the inaugural west coast event went to Theatre Newfoundland and Labrador.

A portion of Wine Fest West sales was donated to Theatre Newfoundland and Labrador. Pictured is Corporation President, Gerald Glavine making the cheque presentation to Elinor Benjamin, a Theatre Newfoundland and Labrador Board Member.

Table D **Wine Sales (Litres)** 2001 - 2003

	2001	2002	2003
Fortified Wine	90,351	86,227	88,098
Crackling, Sparkling, Champagne	234,071	226,775	224,528
Table Wine	1,152,710	1,197,773	1,361,244
Flavoured Wine and Cider	724,284	883,269	1,118,526
Total Wine	2,201,416	2,394,044	2,792,396

Figure C ▮ Per Capita Consumption (Litres) 2001 - 2003

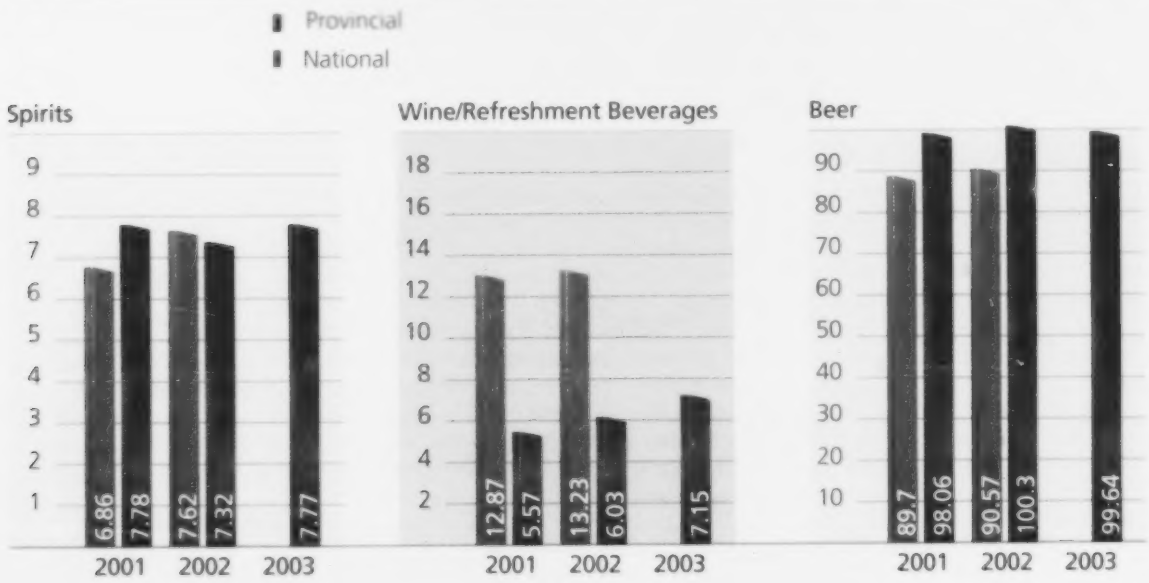


Table E ▮ Sales and Income 2001 - 2003

	2001	2002	2003
Sales	109,859,854	108,454,825	118,216,852
Gross Profit on Sales	65,403,770	63,622,378	68,095,881
Commission Revenue on Sale of Beer	44,655,436	46,692,613	46,849,362
Commission on Licensee Purchases	2,699,173	2,634,976	2,648,988
Other Income	1,631,163	1,310,368	1,363,444
Income from Operations	114,389,542	114,260,335	118,957,675

NLLC's Strategic Plan was implemented in 1999 to guide the organization's progress through 2004. Progress on strategic directions is supported by annual business plans that prioritize actions to meet objectives and set timelines for their completion. The following is an update of the Corporation's progress in meeting its objectives in 2002-2003.

Strategic Objective: ▮ **Customer Service**

To understand the needs of our customers so that we can provide quality products and services that are delivered by knowledgeable, courteous employees in attractive and accessible facilities.

▮ **Priorities and Progress**

NLLC's 2002-2003 business plan identified increased customer satisfaction as our priority for the year. Our efforts in this area were organization-wide. New and renovated retail spaces and the addition of chill rooms in many stores allowed us to enhance customer service through user-friendly design. The implementation of POS contributed significantly to our overall goal, integrating knowledge management, inventory management and service in a single, more efficient system.

We also made advances in communications and customer relations. Expanded promotions, seasonal displays and more comprehensive product information all served to make our stores more interactive. We successfully launched our consumer magazine, *Enjoy*, and had to quickly increase circulation to meet demand. We also redesigned our website to provide more information on our stores, product lines and policies.

NLLC continues to make our supply chain more responsive to the needs of our customers. The relocation of our Deer Lake distribution centre greatly improved our delivery system in western Newfoundland. NLLC is also involved in an ongoing initiative to revamp our distribution process in order to optimize product selection and achieve more efficient inventory levels.

Keeping pace with customer needs also involves constant analysis of data to identify sales trends. Based on data analysis and consumer trends, NLLC introduced 338 new products and de-listed others.

Knowledgeable staff is the front line of quality customer service. NLLC provides employees opportunities to participate in product knowledge courses through an independent study program leading to three levels of certification. The program, developed by the LCBO, provides staff with the knowledge to answer product-related inquiries and make recommendations to customers. Given our focus on customer service in 2002-2003, NLLC actively promoted retail staff certification throughout the year. We also addressed customer satisfaction at our annual managers' and assistant managers' seminars.

Table F ▮ **Per Unit Profits (dollars)** 2001 - 2003

	2001	2002	2003
Imported Beer	1.73	1.49	1.62
Local Beer	1.43	1.41	1.46
Wine	5.24	5.06	5.01
Regular Spirits	16.24	16.38	16.30

Strategic Objective: ▮ **Profitability/Revenue Generation**

To maximize profitability through efficient business practices and exploring new, related business opportunities.

▮ Priorities and Progress

In 2002-2003, as in every fiscal year, profitability and revenue generation were priorities in our business plan. Increases in both production and sales, as well as inroads into new markets, all contributed to meeting our financial goals. Our bottling plant produced 126,800 cases of spirits, a notable increase from 88,735 in the previous year. We also realized a significant increase in sales, from $108,454,825 in 2001-2002 to $118,216,852 in 2002-2003. New stores were opened in busy shopping areas to capitalize on high-density consumer traffic.

Warehousing reorganization and improvements also produced measurable results. Warehouse thru-put increased by 6.5%, reaching 1.34 million cases at the end of the fiscal year. Consultations between warehouse and retail management are ongoing to monitor and adjust order cycles to replenish product as effectively as possible. Overall improvements throughout the supply chain, while still in progress, are already producing results. The implementation of POS in the stores has resulted in significant sales efficiencies; full application in warehousing and distribution is expected to push efficiency levels to an all-time high.

Effective loss prevention and auditing procedures are essential to profitability and accountability. The combination of well-trained employees, well-defined control procedures and precise auditing techniques resulted in successful loss prevention. Over the year, cash and inventory losses for warehouses and branch stores represented only .09% of total sales.

NLLC conducted audit procedures on 18 retail outlets and 44 agency stores according to a plan based on risk assessment and priority. We also carried out audits on three breweries and a cottage winery to verify production reports and related NLLC commissions. Financial analysis and credit verifications were completed for all agency store competitions held during the year. NLLC provided support for agency transfers and scheduled timely audit visits for newly established agencies.

Our efforts in marketing during the year delivered new sales opportunities. Key revenue generating initiatives included strategies targeted to new markets and new product placement. We participated in focus groups in Ontario, Nova Scotia and on the island portion of Newfoundland and Labrador to analyze response to potential new product labels. We laid the groundwork for the introduction of Screech into the Quebec market. We successfully explored US market potential and as a result we will be introducing Screech into three New England states in 2004. These initiatives will create a new life and new revenue potential for this quintessentially Newfoundland product.

Strategic Objective: ▮ **Social Responsibility**

In partnership with community groups and suppliers, we will strive to raise public and staff awareness of the responsible use of beverage alcohol.

▮ **Priorities and Progress**

As the corporation responsible for the distribution and sale of beverage alcohol in the province, conducting business in a socially responsible manner through promoting appropriate and responsible alcohol use is important to NLLC. In 2002-2003, we delivered public safety messages throughout the summer. This program, called the Summer Road Show, entailed sponsoring a series of Don't Drink and Drive and Don't Drink and Boat radio messages. A road show vehicle also traveled the province reinforcing these messages.

We also continued our highly visible Brown Bag program through which elementary school students drew their impressions and messages discouraging drinking and driving on brown paper bags. These messages are put directly into the hands of our customers through our retail stores. We believe that this program has a twofold effect: informing the public and creating awareness among our young people.

In fall 2002, NLLC also partnered in a national social responsibility campaign, distributing 10,000 free copies of a guide to responsible entertaining called *Host* through our retail network. During the winter, the Corporation produced safe snowmobiling messages, both on radio and in print, urging people to not drink and snowmobile. Plans were also put in place for a safe and sober graduation radio campaign for spring 2003.

At NLLC, we believe that our employees are a key element in the success of our messages. Staff are informed about new campaigns and the progress of social responsibility and fundraising initiatives regularly through updates in our quarterly employee newsletter.

Strategic Objective: ▮ **Enforcement**

In partnership with the Government Services Centre and enforcement agencies to enforce the Acts and regulations with respect to the sale, transportation and distribution of beverage alcohol.

▮ **Priorities and Progress**

Effective enforcement involves both information and training initiatives. In 2002-2003, NLLC distributed pamphlets dealing with *Minors on Licensed Premises* and the *Show Cause Hearing Process*. We continued our commitment to the Server Training Program through existing and new partnerships with Hospitality Newfoundland and Labrador, the RCMP, the RNC and Labatt Breweries. We also prepared to deliver the Server Training Program on the Burin, Trinity, Bonavista and Northern Peninsulas in the next fiscal year.

NLLC is directly responsible for all legislation and policy matters pertaining to licensing and enforcement issues as they relate to the Liquor Control Act, Liquor Corporation Act and the regulations made thereunder. The functions of licensing, permitting, inspection and investigation fall under the mandate of the Government Services Centre in the Department of Government Services and Lands and are administered from there. NLLC is committed to working with Government Services and Lands in the delivery of these services.

Table G ▮ Number of Liquor Licenses Issued in 2002 - 2003

Brewer's Agent	158
Club	9
Lounge	100
Restaurant	40
Tourist Home	4
Airport Establishment	1
Hotel / Motel	5
Restaurant Lounge	4
Distributor	3
Catering	11
Recreational Facility	9
Special Event	559

Table H ▮ Total Licenses in Effect, March 31, 2003

Brewer's Agent	1384
Club	375
Lounge	702
Restaurant	295
Tourist Home	30
Airport Establishment	3
Hotel / Motel	105
Restaurant Lounge	13
Distributor	39
Catering	149
Recreational Facility	42
Bonded Warehouse	7
Institution	4
Military Mess	14
Tour Boat	6
Transportation Services	10

Strategic Objective: ▮ **Organizational Effectiveness**

To create a progressive and stimulating workplace through an enhanced employee workforce, staff training programs, effective communications processes and the latest in available technology.

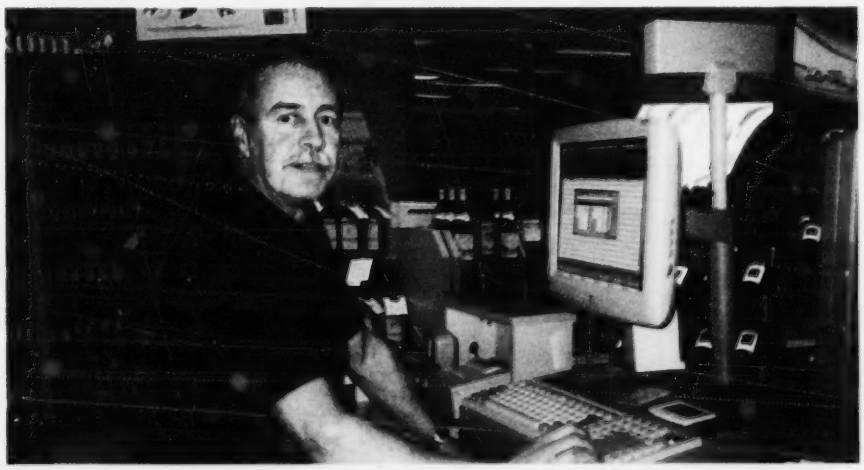
▮ Priorities and Progress

Training and skills transfer are essential components of managing change. As NLLC implemented POS, the most comprehensive technological change in the organization's history, we also provided extensive training to ensure that our employees understood and were comfortable with the new system. To complement training, we assembled a Change Team, including union representatives, to address employee concerns and make adjustments based on employee feedback. The Team proved to be an effective mechanism for internal communications and will remain in place as additional features of the new technology are introduced at the store level and as the Corporation shifts its focus to the introduction of the new technology in the supply chain.

POS implementation also opened up positions in information technology, requiring both new classification and recruitment. Recruitment activity was also driven by the opening of our Pearlgate and Stavanger Drive stores, retirements and the creation of new positions.

NLLC began to prepare for anticipated management retirements that will occur over the next 10 years. As our training requirements expand, NLLC has taken steps to ensure that we are prepared to meet these requirements. During 2002-2003 NLLC offered in-house training programs including workshops in resume writing and interview preparation to encourage current employees to consider career development and promotion opportunities. A total of 45 employees took advantage of the training this year.

Another recruitment-related initiative undertaken during 2002-2003 was the Corporation's participation in a federal-provincial program aimed at increasing the representation of persons with disabilities in the workforce. NLLC recently began participation in the Targeted Wage Subsidy Initiative with the full support of union representatives.



Ensuring the health and safety of our employees is an ongoing priority at NLLC. Initiatives in 2002-2003 included a hearing loss prevention program in the bottling plant, asbestos removal planning at head office and accident prevention through regular workplace inspections and incident investigation.

In 2002, responsibility for workers' compensation case management was transferred to employers. At NLLC, this has already yielded positive results, as evidenced by a reduction in lost time due to injuries by 35% over the previous calendar year even though the injury rate was similar. Through our Early and Safe Return to Work Program, we have been able to get employees back to work more quickly and safely following an injury. For employees, the result is reduced income loss. The Corporation also benefits through lower costs and productivity gains.

As we look ahead, NLLC faces a number of significant opportunities and challenges.

Our greatest challenge in the coming and future years will be to respond to the changing needs and expectations of the consumer. We must continue to enhance our retail spaces, improve signage and access and meet consumer demand for both new products and more information. We must recruit skilled employees to keep pace with growth and technological change and we must ensure that we provide them with the training and knowledge to translate our vision of excellence into results. In meeting consumer expectations, we are also challenged to anticipate demand for new retail locations and agency stores in order to provide services where consumer demand is strongest. If we have learned anything in our history, it is that the customer is evolving. Our customer base is more diverse, discerning and informed than ever before. In 2003-2004 and beyond, we are also challenged to evolve to meet and exceed the expectations of the public we serve.

growth

Successful marketing efforts have made NLLC brands more popular than ever before, as evidenced by bottling plant increases from 88,735 cases in 2001-2002 to 126,800 in 2002-2003. We anticipate in the coming year further growth and expansion in Iceberg Vodka markets in the United States and around the world. We are launching Screech in the US market, beginning with Maine, New Hampshire and Vermont in 2004. We have also laid the groundwork for the introduction of Screech into the Quebec market.

improvement

Increased demand for our products will result in further production increases in our bottling plant. We expect to produce more spirits in the coming year than in any previous year in our history. This will drive both employment and operational efficiency, as unit production costs decrease with higher volumes.

expansion

As we expand our markets, we are also challenged to present our products as effectively as possible. We have done extensive work to re-package the image of Screech to reflect its profile as an award-winning product at the 13th International Rum Festival. We will continue to examine product profiles and market trends and we expect our investment in research and marketing to result in further market expansion, increased revenues and, consequently, a greater return for the Newfoundland and Labrador public.

Technological advances create both long-term benefits and short-term challenges related to implementation, integration and training. In the coming year, full implementation of POS will create efficiencies in warehousing, ordering, shipping and receiving and inventory management. This will contribute significantly to reaching our goal of establishing the most efficient inventory levels possible.

As we continue our commitment to social responsibility, we are challenged to do more and to find the most effective means of communicating with specific audiences. This will involve both building on the success of our previous efforts and finding innovative ways to craft our messages and communicate through a variety of media. We are also making changes in how we participate in fundraising. While we will continue our commitment to work with a variety of non-profit organizations, NLLC will have a signature charity for the first time in 2003-2004, allowing us to focus more closely on a comprehensive fundraising objective.

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Auditors' Report

To the Board of Directors of
Newfoundland Liquor Corporation

We have audited the balance sheet of the Newfoundland Liquor Corporation as at March 31, 2003 and the statements of earnings, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
August 4, 2003

	2003 $	2002 $
SALES	**118,216,852**	108,454,825
COST OF GOODS SOLD		
Inventory, beginning of the year	**23,296,912**	22,377,427
Purchases	**50,985,109**	45,751,932
Cost of goods available for sale	**74,282,021**	68,129,359
Less: Inventory, end of the year	**24,161,050**	23,296,912
	50,120,971	44,832,447
GROSS PROFIT	**68,095,881**	63,622,378
COMMISSION REVENUE ON SALE OF BEER	**46,849,362**	46,692,613
OTHER INCOME		
Commission on licensee purchases	**2,648,988**	2,634,976
Interest	**494,480**	626,899
Miscellaneous	**868,964**	683,469
	4,012,432	3,945,344
EARNINGS FROM OPERATIONS	**118,957,675**	114,260,335
ADMINISTRATIVE AND OPERATING EXPENSES (Schedule 1)	**26,686,918**	21,142,552
NET EARNINGS	**92,270,757**	93,117,783

	2003 $	2002 $
BALANCE, BEGINNING OF YEAR	**37,412,528**	35,294,745
NET EARNINGS	**92,270,757**	93,117,783
	129,683,285	128,412,528
PAYMENTS TO THE PROVINCE OF NEWFOUNDLAND AND LABRADOR	**93,000,000**	91,000,000
BALANCE, END OF YEAR	**36,683,285**	37,412,528

	2003	2002
ASSETS	$	$
CURRENT		
Cash	**11,051,136**	14,309,395
Accounts receivable	**3,374,836**	3,219,556
Beer commissions receivable	**3,948,512**	4,256,090
Inventories, at cost (Note 3)	**24,161,050**	23,296,912
Prepaid expenses	**480,891**	554,603
	43,016,425	45,636,556
CAPITAL ASSETS (Note 4)	**8,283,500**	5,655,864
LEASED ASSETS (Note 5)	**4,084,679**	1,843,601
INTANGIBLE ASSETS (Note 6)	**122,004**	142,203
	55,506,608	53,278,224
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	**15,518,879**	12,958,110
Accrued vacation pay	**882,823**	665,402
Current portion of long term debt (Note 7)	**100,000**	100,000
Current portion of obligation under capital lease (Note 8)	**48,751**	-
	16,550,453	13,723,512
ACCRUED SEVERANCE PAY	**2,210,396**	2,042,184
LONG TERM DEBT (Note 7)	**-**	100,000
OBLIGATION UNDER CAPITAL LEASE (Note 8)	**62,474**	-
	18,823,323	15,865,696
EQUITY		
Retained earnings	**36,683,285**	37,412,528
	55,506,608	53,278,224

ON BEHALF OF THE BOARD:

PRESIDENT

CHAIRMAN OF THE BOARD

	2003 $	2002 $
OPERATING ACTIVITIES		
Net earnings	**92,270,757**	93,117,783
Adjustments for:		
Amortization	**1,550,941**	682,593
Loss (gain) on disposal of capital assets	**6,270**	(5,285)
Accrual for vacation pay	**217,422**	146,083
Accrual for severance pay	**168,212**	158,869
Net change in non-cash operating working capital	**1,922,639**	640,405
	96,136,241	94,740,448
INVESTING ACTIVITIES		
Proceeds on disposal of capital assets	**162**	14,832
Purchase of capital assets	**(6,258,803)**	(3,277,068)
	(6,258,641)	(3,262,236)
FINANCING ACTIVITIES		
Payments to the Province of Newfoundland and Labrador	**(93,000,000)**	(91,000,000)
Repayment of long term debt	**(100,000)**	(100,000)
Repayment of obligation under capital lease	**(35,859)**	-
	(93,135,859)	(91,100,000)
NET (DECREASE) INCREASE IN CASH	**(3,258,259)**	378,212
CASH, BEGINNING OF YEAR	**14,309,395**	13,931,183
CASH, END OF YEAR	**11,051,136**	14,309,395

1. DESCRIPTION OF BUSINESS

The Newfoundland Liquor Corporation (the "Corporation") is a provincial crown corporation responsible for managing the importation, sale and distribution of beverage alcohol throughout Newfoundland and Labrador.

2. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following accounting policies:

Revenue recognition

Revenue is recognized when goods have been sold and all contractual obligations have been met and collection is reasonably assured.

Inventories

Inventory is recorded at the lower of net realizable value or cost, which is measured at actual landed cost including freight and federal taxes.

Capital assets

Capital assets are recorded at cost. Amortization is recorded over the expected useful life of the asset on a straight line basis as follows:

Buildings	20 years
Store equipment and fixtures	5 years
Motor vehicles	3 years
Office furniture and equipment	5 years and 10 years
Plant and warehouse equipment	5 years

Leased assets

Leased assets are recorded at cost. Amortization is recorded over the terms of the leases on a straight line basis as follows:

Leasehold improvements	1 to 20 years
Leased land	30 years

Intangible assets

Intangible assets consist of a trademark which is recorded at cost and amortized on a straight line basis over a ten-year period.

Severance pay

A liability for severance pay is recorded in the accounts for all employees who have a vested right to receive such payment. No provision for severance pay liability is made for employees who have less than nine years of continual service.

2. ACCOUNTING POLICIES (Continued)

Use of estimates

The preparation of the Corporation's financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. INVENTORIES

	2003	2002
	$	$
Head office	**8,258,845**	10,777,968
Branch stores	**6,896,501**	5,889,281
Stock in transit	**6,105,643**	3,227,531
Raw materials	**1,240,733**	1,259,271
Finished goods	**1,640,914**	2,124,447
Work in progress	**18,414**	18,414
	24,161,050	23,296,912

4. CAPITAL ASSETS

	2003			2002
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
	$	$	$	$
Land	**1,128,841**	-	**1,128,841**	1,128,841
Buildings	**7,286,760**	**4,049,923**	**3,236,837**	3,163,166
Store equipment and fixtures	**2,173,598**	**1,080,504**	**1,093,094**	185,615
Motor vehicles	**133,495**	**86,702**	**46,793**	59,389
Office furniture and equipment	**3,906,622**	**1,666,661**	**2,239,961**	782,352
Plant and warehouse equipment	**3,038,781**	**2,500,807**	**537,974**	336,501
	17,668,097	**9,384,597**	**8,283,500**	5,655,864

5. LEASED ASSETS

	2003			2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	$	$	$	$
Leasehold improvements	8,821,532	4,927,083	3,894,449	1,769,985
Leased land	248,925	183,673	65,252	73,616
Leased equipment	147,085	22,107	124,978	-
	9,217,542	5,132,863	4,084,679	1,843,601

6. INTANGIBLE ASSETS

	2003			2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	$	$	$	$
Trademark	202,800	80,796	122,004	142,203

7. LONG TERM DEBT

	2003	2002
	$	$
11.35% debenture, issued to Brant Investments and held by National Trust Company Limited, repayable in annual principal installments of $100,000	100,000	200,000
Less: current portion	100,000	100,000
	-	100,000

These debentures are guaranteed unconditionally, as to principal and interest, by the Province of Newfoundland and Labrador.

8. OBLIGATION UNDER CAPITAL LEASE

	$
IBM Canada Limited, capital equipment lease repayable in monthly installments of $5,226 to June 30, 2006	114,112
Less: Interest on obligation	(2,887)
	111,225
Less: Current portion	48,751
	62,474

9. FINANCIAL INSTRUMENTS

The Corporation's financial instruments included in current assets and current liabilities approximate fair value due to their short term to maturity. The Corporation intends to hold its long-term debt instruments to maturity and therefore does not expect any differences between carrying value and fair market value will be recorded in the accounts.

10. LEASE COMMITMENTS

The Corporation has entered into rental leases covering retail outlets. Annual lease obligations for the next five years are as follows:

	$
2004	**1,064,821**
2005	**914,791**
2006	**757,938**
2007	**431,510**
2008	**269,381**
	3,438,441

11. RELATED PARTY TRANSACTIONS

The Corporation is leasing office and warehouse space in St. John's from the Department of Works, Services and Transportation. These leases are rent free; however, all operating and maintenance costs related to the buildings are the responsibility of the Corporation.

12. PENSIONS

The Corporation and its employees are subject to the Public Service Pensions Act effective June 26, 1973. Pension contributions deducted from employees' salaries are matched by the Corporation and then remitted to the Province of Newfoundland Pooled Pension Fund from which pensions will be paid to employees when they retire. The Corporation's share of pension expense for the year is $695,175 (2002- $524,682).

	2003	2002
	$	$
Salaries and employee benefits	**13,769,656**	11,530,505
Agency store commission and expenses	**3,666,972**	3,199,520
Rent	**1,233,252**	1,021,951
Marketing	**986,863**	765,615
Professional fees	**843,909**	292,389
Amortization on capital assets	**771,440**	502,108
Amortization on leased assets	**667,685**	108,888
Interest and bank charges	**607,064**	495,937
Repairs and maintenance	**560,410**	269,668
Heat and light	**418,123**	319,736
Staff training	**363,329**	188,225
Freight to stores	**316,754**	299,072
Stationery and office supplies	**305,625**	236,010
Travel	**273,847**	298,897
Miscellaneous	**269,799**	196,563
Cleaning	**255,347**	171,812
Communications	**254,886**	181,038
Store supplies and wrapping	**207,655**	169,331
Municipal taxes	**124,725**	122,242
Security	**115,471**	107,313
Inventory breakage and storage	**109,630**	108,364
Bad debt expense	**100,684**	115,216
Uniforms	**71,658**	20,052
Postage	**60,796**	60,218
Directors' fees and expenses	**58,602**	53,450
Insurance	**58,511**	52,602
Consulting fees	**51,395**	72,373
Staff recruitment	**40,049**	14,369
Dues and subscriptions	**36,433**	42,084
Advertising	**35,452**	18,325
Interest on long term debt	**22,765**	32,347
Motor vehicle expense	**21,861**	16,934
Loss (gain) on disposal of capital assets	**6,270**	(5,285)
Inventory storage charges	-	64,683
	26,686,918	21,142,552

Sales by Location 2002 - 2003

LOCATION	NET SALES
ELIZABETH AVE. EAST	$9,199,944
MURRAY PREMISES	4,013,356
KENMOUNT ROAD	2,450,070
CORNER BROOK PLAZA	2,288,605
PORT AUX BASQUES	1,810,330
STEPHENVILLE	3,372,597
GANDER	3,343,763
GRAND FALLS	5,084,189
LABRADOR CITY	2,398,709
HARBOUR GRACE	4,126,042
CHURCHILL SQUARE	2,552,273
DEER LAKE	7,792,865
CLARENVILLE	12,131,712
MARYSTOWN	3,865,743
LICENSEE STORE	2,511,642
MILLBROOK MALL	5,037,991
MOUNT PEARL	4,585,888
PLACENTIA	2,361,295
HAPPY VALLEY	2,446,313
TOPSAIL ROAD	6,245,318
BAY ROBERTS	3,700,549
STAVANGER DRIVE	3,678,263
PEARLGATE	3,461,563
AGENCY STORES	15,427,975
AVALON MALL	2,548,473
VILLAGE MALL	1,574,571
WINE SHOW	202,086
WINE SHOW WEST	4,727
TOTAL	$118,216,852

Newfoundland and Labrador Liquor Corporation

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